EdenTree R&S Managed Income Fund

Q1 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund (B Class)	1.5%	7.5%	6.9%	11.8%	21.7%	58.9%
FTSE All Share TR GBP*	3.6%	6.9%	8.4%	26.1%	30.3%	75.3%
IA Mixed Investment 40-85% Shares	4.1%	10.2%	10.1%	10.6%	29.1%	72.8%
Sector Quartile	4	4	4	2	4	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

The first three months was a particularly strong period for equity markets, albeit heavily skewed towards a handful of US technology stocks, mainly with exposure to the theme of artificial intelligence. Nvidia was the name on everybody's lips, rising over 80% in the quarter and adding about $1trn in market value in the process. However, Microsoft, Meta, Amazon and a number of semiconductor industry stocks were also contributors. In addition, Eli Lilly and Novo Nordisk rose sharply, adding to last year's gains, as the success of their anti-obesity drugs became more widely recognised. In contrast, Tesla was a notable faller as sales growth weakened amid a general slowdown in electric car sales, while a number of stocks with significant exposure to China fell as the economy there remained stagnant. This included Apple and Nike.

In contrast, for fixed income markets, returns were more or less flat. While the higher appetite globally for more risky assets (such as equities) helped to narrow spreads for corporate bond yields over government bonds, the enthusiasm of late 2023 for rapid cuts in interest rates waned as it became clear that inflation was more persistent and that major economies, notably the US, were remaining more robust than expected.

PERFORMANCE & ACTIVITY

For the EdenTree Responsible & Sustainable Managed Income fund, performance was positive, albeit lagging the fund's benchmark, the FTSE All Share index. The fund's exposure to what we classify as 'dividend growth' assets was positive, in light of the rise by 'growth' stocks in the broader market. This included holdings such as Schneider Electric (+14% in GBP terms) and our largest holdings RELX (+10%). But we also benefited from more idiosyncratic stock movements, notably a bidding war that kicked off for paper packaging maker DS Smith (+29%). We are watching and waiting for the next move by the two bidders (Mondi and International Paper) before acting. Axa (+16%) was also a notable gainer after a switch to a more generous and progressive dividend policy.

The contribution of our fixed income holdings (around 23% of the portfolio) was mostly beneficial, particularly our corporate bond holdings as spreads tightened, but our small allocation to gilts was a drag as the likelihood of a series of rapid interest rate cuts dwindled.

However, the fund's relative underperformance was largely a consequence of our infrastructure holdings where, after a rally at the latter part of 2023, they fell back again on a higher interest rate outlook. Given that these are businesses that mostly have inflation protection in their revenue streams, this was disappointing, all the more so as several of our holdings sold assets at decent premiums to their carrying value, when their shares trade at significant discounts to net asset value. This basket accounted for about 11% of the portfolio's value and we regard these holdings as significantly undervalued at current levels.

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Over the quarter there was limited fund activity. We added a new position in Dunelm, a UK homewares retailer that has decent growth potential in an otherwise tough UK market and which has an excellent dividend growth track record and a high yield. We also added to Veolia Environnement, the water and waste processor, following an interesting investor update that confirmed its growth potential.

OUTLOOK

The debate over interest rate cuts has shifted in recent months and this has fed through into asset prices. 'When, and by how much' has moved to 'higher for longer', notably in the US, where the economic backdrop has proved to be remarkably resilient. At the same time equity valuations in the US are, on some measures, at extreme levels and the US yield curve is still predicting recession (via an inverted spread between 2-year and 10-year Treasury yields which has unfailingly predicted recession in the past). This implies poor expected returns for equities, certainly in the US. In contrast, valuations in Europe are far less extreme, even for businesses with global exposure. As a result, that is where our equity holdings are concentrated.

More broadly, given the high level of uncertainty around elections later this year and ongoing conflict in the Middle East and Ukraine, our portfolio remains conservatively positioned and widely diversified across equity, fixed income and infrastructure assets, which we hope ought to provide resilience in the event of higher volatility. Beyond that, our remit remains the same: to generate a resilient yield, with the scope for capital growth. Vital to this is our Responsible & Sustainable investment process, which we feel offers vital due diligence and screening across all of the Fund's holdings to ensure that we only invest in businesses that we confidently believe are engaged in best practice across all aspects of their operations.

PERFORMANCE DISCRETE	12 Months to 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund (B Class)	-14.5%	27.3%	8.2%	-3.3%	6.9%
FTSE All Share TR GBP*	-18.5%	26.7%	13.0%	2.9%	8.4%
IA Mixed Investment 40-85% Shares	-7.7%	26.5%	5.3%	-4.6%	10.1%
Sector Quartile	4	2	1	2	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

Past performance is not necessarily a guide to future returns.

*FTSE All-Share Index – This benchmark is a comparator against which the overall performance of the fund can be measured. It has been chosen as the Fund's average market and sector exposure is biased in favour of UK equities and corporate bonds. The portfolio manager is not bound or influenced by the index when making investment decisions and the Fund's holdings may deviate from the benchmarks constituents.

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